

ANSWERS TO COMMON QUESTIONS ABOUT REDEVELOPMENT

What is Redevelopment?

Redevelopment is a process created to assist city and county government to eliminate blight from a designated area, and to achieve desired development, reconstruction and rehabilitation including but not limited to: residential, commercial, industrial, and retail.

Blight includes physical deterioration as well as economic deficiencies.

Physical Deterioration

- ❖ Aging, deteriorating, unsafe, and poorly maintained buildings and structures sometimes intermingled with historically significant structures as well as some well-maintained buildings;
- ❖ Inadequate and obsolete infrastructure, i.e., utilities, storm drainage, sewers, street lighting, and confusing and inefficient street systems;
- ❖ Factors that substantially hinder the economically viable use of lots or buildings;
- ❖ Incompatible adjacent or nearby uses that prevent economic development;
- ❖ A clutter of utility lines, jumble of signs, and a lack of architectural unity and quality;
- ❖ Code violations and unsafe conditions; and
- ❖ Multiplicity of property owners, inadequate or irregular-sized lots, and incompatible mixtures of land uses.

Economic Deficiencies

- ❖ High business vacancies, low lease rates, high turnover rates, or abandoned buildings;
- ❖ Depreciated or stagnant property values or impaired investments;
- ❖ Hazardous waste;
- ❖ Underutilized and underdeveloped land;
- ❖ Excess of bars or liquor stores or adult uses that have caused problems for public safety or welfare;
- ❖ High crime rate;
- ❖ Lack of necessary commercial facilities that are normally found in neighborhoods, such as banks or grocery stores; and
- ❖ Deteriorating, unsafe, substandard housing conditions, and residential overcrowding.

What is a Redevelopment Agency?

In Alameda, the City Council is the governing board of the Redevelopment Agency, known as the Community Improvement Commission or CIC. The council and the agency are two separate, distinct legal entities. The agency members hire staff to carry out day-to-day operations and its redevelopment plans.

How does a citizen benefit from being in a Redevelopment Project Area?

Redevelopment is one of the most effective ways to breathe new life into deteriorated areas plagued by physical, environmental or economic conditions which act as a barrier to new investment by private enterprise. Through redevelopment, a project area can receive focused attention and financial investment to accommodate changing markets and obsolescence, create jobs, revitalize the business climate, rehabilitate and add to the housing stock, and gain active participation and investment by citizens which would not otherwise occur.

Why do we have Redevelopment Projects?

The basic reason for establishing redevelopment projects is to secure funds that can be bonded and used to attract commercial, industrial, and residential development in order to eliminate blight, reverse economic obsolescence, and improve an area.

How do Redevelopment Agencies secure funds?

California State Law makes available to redevelopment agencies a method of obtaining and leveraging funds called “tax increment financing.” On the date the city council approves a redevelopment plan, the property within the boundaries of the plan has a certain total property tax value. If this total assessed valuation increases, most of the taxes that are derived from the increase go to the redevelopment agency. These funds are called “tax increments.” Usually, the flow of tax increment revenues to the agency will not be sufficient in itself to finance the full scope of redevelopment activities and development projects. Therefore, agencies issue bonds. These bonds are not a debt of the city general fund or county and are repaid solely from tax increment revenue. Tax increments can be used in the project which generates them, except for residential projects which benefit low- and moderate-income households. For these projects, increment may be used outside of project areas.

Are Property taxes raised with Redevelopment?

It is important to note that higher taxes from the sale, development or rehabilitation of property reflects a rise in property value and not an increase in tax rate. Until a property is improved or sold, assessed values and tax rates in redevelopment areas are restricted by Proposition 13 limitations.

What does Redevelopment involve?

Redevelopment includes a variety of activities:

- a. **Rehabilitation and Reconstruction**
Existing structures may be modernized and improved; deteriorating and substandard structures may be brought up to current designs and standards and building code requirements.
- b. **Redesign and Re-planning**
Areas with inefficient and improper site layout, lacking adequate parcel size and shape, accessibility, or usefulness may be redesigned. Areas difficult to develop due to fragmented ownership, tax delinquency, or other causes may be redesigned, replanned, and assembled for new development.
- c. **Assistance to Private Development**
Undeveloped or underutilized areas can be developed on an accelerated basis with the assistance of the redevelopment program. Redevelopment agencies can assist private businesses and developers through reduced land costs, loans, and other means.
- d. **Demolition and Clearance**
Existing structures, building, or other improvements may be cleared or moved from property acquired by the redevelopment agency to accomplish needed redevelopment.
- e. **Capital Improvement Project Implementation**
Areas may be improved through the construction of public facilities including, but not limited to, public buildings (except civic centers), streets, curbs, gutters, sidewalks, sewers, storm drains, water systems, and street lights.
- f. **Affordable Housing Development**
Redevelopment agencies must use at least twenty percent of their funds to create affordable housing for people of low or moderate incomes.

What may a Redevelopment Agency do?

The Agency may:

- ❖ Acquire or assemble land for public or private reuse.
- ❖ Clear, grade, and prepare acquired land for reuse or for resale to private developers or government agencies in accordance with the objectives of the redevelopment plan;

- ❖ Construct public improvements and facilities alone or in concert with other public authorities and agencies;
- ❖ Encourage public and private improvements so as to prevent, mitigate, or eliminate existing and/or anticipated blight conditions in the project area; and/or
- ❖ Demolish, remove, rehabilitate, alter, modernize, and cause general improvements to be made to existing structures in the project area where such are permitted or required under provisions and in conformance with the redevelopment plan.

The Agency is required to:

- ❖ Provide moving and other relocation assistance and benefits to qualified individuals, businesses, and non-profit organizations when they are required to move as a result of the implementation of the redevelopment plan;
- ❖ Provide for owner participation in the redevelopment of property in the project area and extend reasonable preferences to persons who are engaged in business in the project area to reenter into business within the project area;
- ❖ Use 20 percent of tax increment revenues resulting from the project area to increase and improve the community's supply of housing for persons and families of very low-, low-, or moderate-income.
- ❖ Provide an equal number of replacement dwelling units for low- and moderate-income dwelling units destroyed or removed from the project area by the agency.

How are property taxes determined?

With the passage of Proposition 13 in 1978, a formula for establishing property taxes was approved to be used statewide. This formula provides that property taxes will be based upon a rate of approximately 1 percent of the market valuation of property. In addition, properties may be taxed to repay special assessments and voter approved bonds such as school, park and library bonds.

What is Assessed Value?

Pursuant to Proposition 13, the assessed value of property is based upon its market value. Property is reassessed by the County Assessor under the following circumstances:

- ❖ Up to an additional 2 percent of the assessed value is added to the property each year to keep up with inflation and population growth;
- ❖ New improvements or rehabilitation of the property will cause reassessment; and

- ❖ The sale or transfer of title in the property will initiate reassessment.

For example, if your property has an assessed valuation of \$100,000 today, the taxes paid on that property cannot exceed 1 percent (\$1,000 per year) plus the amount of any voter-approved special taxes. Each year, the property can increase in assessed value by no more than 2 percent over the previous year. Therefore, the next year the assessed value cannot exceed \$102,000 and taxes at 1 percent would not exceed \$1,020. Redevelopment has no effect on the assessment or tax levy process. Redevelopment agencies do not levy a property tax.

Will Redevelopment increase my taxes?

When redevelopment activities are successful, the property values within, as well as around, the redevelopment project area will increase. The higher taxes resulting from the sale of property or new construction will reflect a rise in property values, not an increase in tax rates. The changed image of these areas and improved economic base will increase the marketability of property in the area. Redevelopment tends to increase the value of property but does not increase property tax rates.

How does the Redevelopment Agency receive tax dollars?

When the redevelopment project area is adopted, the current assessed values within the project area only are designated as the “base year.” This includes the assessed value of all land and improvements within the boundaries of the project area.

After plan adoption, all the taxes paid on this “base year” assessment go, as they always have, to the city, county, school districts, and other taxing agencies. Any increase in assessed value above this base year value within a project area and the taxes resulting from this increased assessed valuation per the standard tax rate becomes the main source of revenue for the agency. It is called tax increment. These funds are intended by law to be used for economic development purposes and projects which increase the general property, sales and use tax base. They are restricted from paying for ongoing maintenance and operations such as tree trimming and street sealing or personnel for police, fire, libraries and parks. They can assist to build public facilities, except civic centers, but may not be used to operate those facilities.

What is Tax Increment?

As the redevelopment plan is implemented, improvement will result in an increase in property values within the project area. However, these increases in value will not result in increased taxes to individual property owners, unless there is a change in ownership or new construction (in other words, Proposition 13 still applies). The increases in value due to the changes in ownership and new construction will increase the tax revenues generated by the property. This increase in tax revenue is known as “tax increment.” For example, if property was assessed at \$100,000 this year, the taxes paid by the property owner at the standard tax rate of 1 percent would be \$1,000 pursuant to Proposition 13.

If, as a result of new construction on the property, the property increases in assessed valuation to \$500,000, the taxes paid by the property owner at the same standard tax rate would be \$5,000. The \$4,000 increase is the “tax increment” and it is these funds which can become the revenue of the agency.

How do you finance Redevelopment activities?

The flow of the agency’s share of tax increment revenues and other funds are generally not sufficient to finance most redevelopment activities on a pay-as-you-go basis. Therefore, the agencies are given the right to issue tax increment bonds. The bond funds are used to implement the redevelopment plan. In effect, the bonds are a loan of the agency’s own money to the agency early on in the life of a project. In addition, the agency can receive loans, grants, or other financial assistance from a city/county or other agencies including the various agencies of the state and federal governments or from private sources.

How are the tax allocation bonds and loans repaid?

Tax increment bonds and loans are solely the financial obligation of the agency, not the City of Alameda and its general fund. The bonds or loans are repaid from the tax increment revenues which are received by the agency each year. In other words, tax revenues generated through redevelopment activities are funneled back into the project area to stimulate additional development and to pay the costs involved. In addition, Alameda bond funds are insured, so that if there was an unlikely default on bonds , the CIC would be protected.

Do taxing entities serving the project area lose tax revenue they would normally receive?

Taxing entities such as the county, school districts, and special districts that serve the project area continue to receive all tax revenues they were receiving the year the redevelopment project was formed (the base year). In addition, they receive an additional 2% annually of the tax increment each year in accordance with a complex formula written into the law. In addition to this, Alameda also has an agreement to share additional funds, and has joined forces with, AUSD to help develop the new Ruby Bridges K-8 School and joint park project.

Does the Agency automatically receive the tax increment?

The agency can only receive annual tax increment if it can show that it has created a debt which is an obligation of the agency. Debt can be created by the sale of bonds, the receipts of loans or advances of funds, the financial obligation to pay the cost of a project, or other obligations of the law. Debt which has not been paid for by the agency is considered outstanding indebtedness and is an obligation of the agency and not any other

entity such as the general fund. At the conclusion of the project and after all debt has been repaid, the tax increment flow created by the redevelopment project is returned to the taxing entities. During the life of the plan, Alameda receives about 80¢ of each property tax dollar received. Without redevelopment, the city's normal share of the property tax dollar is about 26¢. 20% of all tax increment received must be spent on the provision of affordable housing.

Will Redevelopment raise tax rates?

The redevelopment agency has no power to set tax rates. Tax rates of agencies such as the county and special districts can only be raised by actions of a governing body (other than the redevelopment agency) or by a vote of the people. If this occurs, then all property within that jurisdiction's boundaries, including the project area, will face higher taxes.